

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNITED DENTAL CARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

Exam Date December 31, 2008

TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION.....	3
Period Covered by Examination	3
Examination Procedure Employed.....	3
Status of Prior Examination Findings	4
SUMMARY OF SIGNIFICANT FINDINGS	4
SUBSEQUENT EVENTS	4
COMPANY HISTORY	4
General.....	4
AFFILIATED COMPANIES	4
Affiliates	4
Transactions with Affiliates	5
Investment Management Agreement	5
Tax Allocation Agreement.....	5
Dividends and Capital Contributions	6
Mergers and Acquisitions	6
CORPORATE RECORDS	6
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE.....	6
FIDELITY BONDS AND OTHER INSURANCE	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	7
TERRITORY AND PLAN OF OPERATION	7
GROWTH OF COMPANY	7
DENTAL EXPENSE PAYMENTS	8
REINSURANCE	8
ACCOUNTS AND RECORDS.....	8
STATUTORY DEPOSITS	9
FINANCIAL STATEMENTS	9
BALANCE SHEET (ASSETS)	10
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS).....	11
SUMMARY OF OPERATIONS	12
RECONCILIATION OF CAPITAL AND SURPLUS.....	13
SUMMARY OF RECOMMENDATIONS	14

January 13, 2010

Honorable Neal T. Gooch, Acting Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

UNITED DENTAL CARE OF UTAH, INC.

Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our association examination of United Dental Care of Utah, Inc. This examination covers the period of January 1, 2004 through December 31, 2008.

Examination Procedure Employed

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The last examination was completed as of December 31, 2003. There were two (2) Items of significance noted in the prior examination report, which have been satisfactorily addressed.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings during this examination.

SUBSEQUENT EVENTS

There are no significant subsequent events.

ORGANIZATION HISTORY

General

United Dental Care of Utah, Inc. is a limited health plan organization, which contracts with independent practitioners to provide dental services to its members. The Organization was organized on March 24, 1986, in the state of Utah as U.S. Dental Plan, Inc.

On November 27, 1995, United Dental Care, Inc. acquired U.S. Dental Management, Inc., the Organization's parent. On December 28, 1995, United Dental Care, Inc. became the sole shareholder of U.S. Dental Plan, Inc. On February 28, 1996, the Organization's name was changed to United Dental Care of Utah, Inc.

On September 11, 1998, United Dental Care, Inc. was acquired by Protective Life Corporation (PLC), an insurance holding company and ultimate parent. On October 1, 2000 the issued shares of common stock of the Organization were transferred to Protective Life Insurance Company. There was no change in the ultimate parent from PLC.

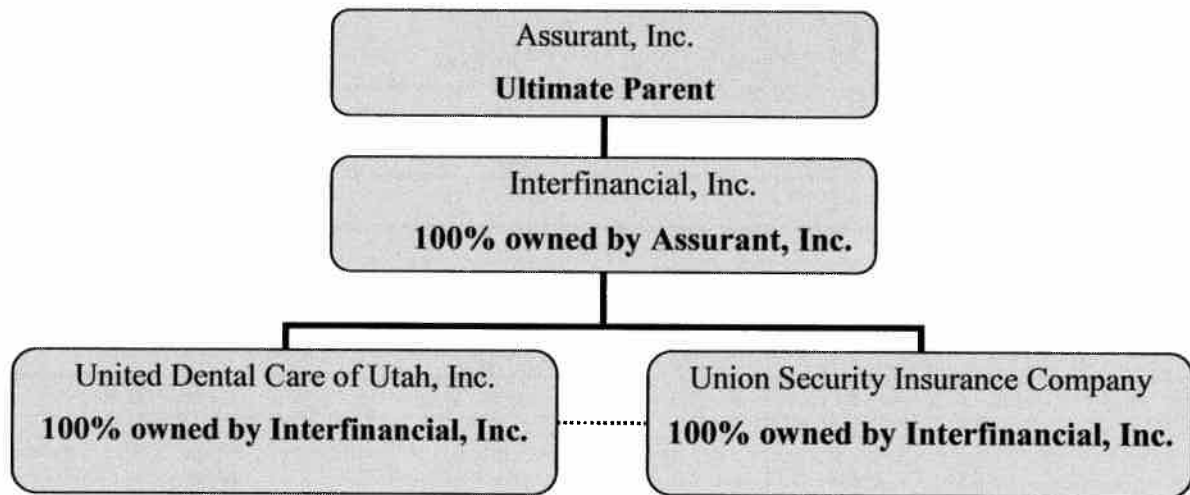
On December 31, 2001, the Organization became a wholly owned subsidiary of Dental Care Holding, Inc., an insurance holding company and effective October 17, 2005, Dental Care Holdings, Inc. merged with Interfinancial, Inc., which made the Organization a wholly-owned subsidiary of Interfinancial, Inc. Interfinancial, Inc in turn, is a wholly-owned subsidiary of Assurant, Inc., the current ultimate parent.

AFFILIATED COMPANIES

Affiliates

Effective December 31, 2008, the Organization is a member of an insurance holding company system, and it is subject to the requirements of U.C.A. § 31A-16. The ultimate controlling parent is Assurant, Inc. The Organization is wholly owned by Interfinancial, Inc. a wholly owned subsidiary of Assurant, Inc.

The following illustrates the direct line of control from the Organization to its ultimate controlling parent at December 31, 2008.



Transactions with Affiliates

Administrative Services Agreement

Pursuant to the Administrative Services Agreement by and between Union Security Insurance Company and the Organization effective January 1, 2002 and as amended January 1, 2008, Union Security Insurance Company agrees to provide administrative services as may be necessary and appropriate for the business operations of the Organization. In return for the services provided, the Organization agrees to pay Union Security the fully allocated costs for such services. The administrative services includes, but is not limited to, provider services, member and client services, sales and marketing services, information technology services, financial services, legal services and government relations, human resources, office services and management services.

Investment Management Agreement

Pursuant to the Investment Management Agreement by and between Assurant, Inc. and United Dental Care of Utah, Inc. as of January 1, 2002 and as amended November 3, 2008, Assurant, Inc. agrees to provide investment management services as the Organization may request or Assurant, Inc. may deem appropriate for the proper administration of the Organization's investment portfolio. All investment transactions will be made in conformity with the Organization's investment and regulatory Guidelines.

Tax Allocation Agreement

Pursuant to a Federal Tax Allocation Agreement effective September 13, 2007, for all tax periods ending on or after the dates listed in the Tax Allocation Agreement, Assurant, Inc. and the companies listed on Exhibit C to the Tax Allocation Agreement file a consolidated federal income tax return. The consolidated group's tax

liability is allocated among certain regulated entities and other participating affiliates in compliance with U.S. Treasury Regulations Sections 1.1552-1(a) (2), 1.1502-33(d)(1) and 1.1502-33(d)(3), and the Tax Allocation Agreement provides for allocation adjustments in the event of loss and credit carry backs and deficiencies and overpayments determined after an audit.

Dividends and Capital Contributions

During the period of examination, there were no dividends to stockholders or capital contributions.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of examination.

CORPORATE RECORDS

Minutes of meetings of stockholders, directors, and committees were reviewed for compliance and support. The minutes approve and support Organization's transactions and events. The Organization provided an affidavit dated May 12, 2005, stating that the previous examination report as of December 31, 2003, was distributed to the board of directors.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicated the number of directors shall be three (3).

The following persons served as directors of the Organization as of December 31, 2008:

Name and Residence

James Richard Gimarelli, Jr.
Smithville, MO

James Vernon Barrett, DMD
Birmingham, AL

Kimberly Parker Reese
Birmingham, AL

Principal Occupation

President
United Dental Care of Utah, Inc

Vice President, Provider Relations,
Assurant, Inc.

Vice President,
Union Security Insurance Company

Effective January 1, 2004 the Organization was granted a waiver from the requirement under Utah Code Annotated (U.C.A) § 31A-5-407(2) that a majority of its board of directors be residents of the state of Utah.

Officers of the Organization as of December 31, 2008, were:

<u>Name</u>	<u>Title</u>
James Richard Gimarelli, Jr.	President
Stacia Nalani Almquist	Vice President, Treasurer
Donna Edwina Bowles	Secretary
Kimberly Parker Reese	Vice President
Danny Joseph Galginitis	Vice President
Gary Louis Lau	Vice President

As of December 31, 2008, there were no committees of the board of directors.

FIDELITY BONDS AND OTHER INSURANCE

The Organization is a named insured under a policy providing \$10,000,000 coverage for losses associated with employee dishonesty. This coverage is in excess of the \$50,000 minimum fidelity coverage suggested by the NAIC.

The Organization is also insured under other policies of the ultimate parent, Assurant, Inc., that provide coverage for losses associated with other risks of doing business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization does not provide any employee benefit plans as staffing is provided through the administrative services agreement discussed above.

TERRITORY AND PLAN OF OPERATION

The Organization is authorized to operate in the State of Utah as a limited health plan, providing different levels of dental coverage, including specialty care. The Organization does not operate in any other jurisdiction. The Organization contracts with dentists for dental services to be provided to its members via capitation arrangements. Dentist capitation consists of monthly fees paid to providers and is expensed in the month in which the dentist is obligated to render dental services. Emergency services to members while temporarily out of the provider's area, as well as specialty services not covered by capitation fees, are paid as incurred. The Organization's products are marketed to employers primarily through agents, brokers and benefit consultants.

GROWTH OF ORGANIZATION

During the period of this examination the Organization has shown consistent growth as shown in the tables below.

Membership has shown consistent gains.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Member Months	47,046	49,895	54,362	56,810

Premiums earned have consistently increased, which reflects the growth in membership. Net investment gains were consistent, with the exception of 2008, which reflected the downturn in the nation's economy beginning in late 2007.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net premiums earned	\$436,929	\$456,335	\$504,116	\$529,221
Net investment gains or (losses)	11,870	18,881	22,605	9,388

Total assets have shown consistent gains. As of the date of examination, the investment portfolio consists primarily of cash and one short-term investment, which reflects very conservative investment decisions in response to the economic downturn discussed above. Surplus has shown moderate increases as a reflection of the conservative investment decisions and increasing underwriting and administrative costs.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Assets	\$491,501	\$509,393	\$530,774	\$543,253
Capital & Surplus	\$451,117	\$468,482	\$485,632	\$493,966

DENTAL EXPENSE PAYMENTS

During the period of examination the trend of dental benefits as a percentage of earned premiums is consistent with premium and membership growth. The Organization is a relatively small company where small fluctuations in experience can be expected to occur.

Dental Expense Payments as % of Earned Premiums				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Capitation Fees	58.09%	62.76%	59.30%	60.55%
Contractual Fees (Outside of Network)	5.97%	4.65%	4.40%	3.78%
Total	64.06%	67.41%	63.70%	64.33%

REINSURANCE

As of December 31, 2008, the Organization did not accept or cede reinsurance.

ACCOUNTS AND RECORDS

As discussed above, affiliate, Union Security Insurance Company provides all administrative services as may be necessary and appropriate for the business operations of the Organization. The administrative services include provider services, member and client services, sales and marketing services, information technology services, financial services, legal services and government relations, human resources, office services and management services. The Organization's general ledger is maintained on an automated general ledger. In addition, premiums, claims, investments and other financial transactions supporting the account balances in the general ledger are automated as well. The following exception was noted during the examiner's review of the accounting records:

U.C.A § 31A-4-108 (1) requires that insurers hold all investments and deposits of its funds in its own name except securities kept under a custodial agreement or trust arrangement with a bank or certain other qualified institutions. Utah Administrative Code (U.A.C.) Rule R590-178 provides guidance for standards of control a custodial agreement must meet. As of December 31,

2008, the Organization's investments in bonds and stocks were held in accounts with a bank. The custodial agreement with the bank did not contain the required standards of control. U.A.C R590-178-5b provides: "Custodial securities held in violation of this rule shall be excluded when determining and reporting financial condition of insurers." The Organization reported investments in bonds, and short term securities of \$519,887, which were held by one institution in violation of the rule. Prior to the conclusion of the examination, on November 10, 2009, the Organization negotiated a custodial agreement which complies with both the statute and rule. As a result the department waived the requirement that the assets be excluded.

STATUTORY DEPOSITS

As of December 31, 2008, the Organization maintained a deposit on behalf of the department in an amount greater than its minimum capital requirement of \$10,000, as required by U.C.A § 31A-4-105. The deposit maintained on behalf of department as of December 31, 2008 was as follows:

	Description	Statement Value	Fair Value
For the benefit of all Policyholders:	U.S. Treasury Note	\$24,786	\$25,489

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

UNITED DENTAL CARE OF UTAH, INC.

BALANCE SHEET (ASSETS)

As of December 31, 2008

	Net Admitted Assets
Assets:	
Bonds	\$ 24,786
Cash & short term investments	505,921
Total invested assets	530,707
Investment income due & accrued	331
Premiums uncollected, deferred or accrued	5,706
Current federal income tax recoverable	4,680
Net deferred tax asset	1,829
Other assets	0
Assets excluding separate accounts	543,253
Separate accounts	0
Total assets	\$ 543,253

UNITED DENTAL CARE OF UTAH, INC.

BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)

As of December 31, 2008

Liabilities:

Claims unpaid	\$	6,803
Accrued medical incentive pool and bonus amounts		0
Unpaid claims adjustment expenses		83
Premiums received in advance		72
General expenses due or accrued		5,695
Amounts due to parent, subsidiaries and affiliates		36,634
Total liabilities excluding separate accounts		<u>49,287</u>
Total liabilities		<u>49,287</u>

Surplus and other funds:

Common capital stock		10,000
Gross paid in and contributed surplus		361,487
Unassigned funds (surplus)		<u>122,479</u>
Total surplus & other funds		<u>493,966</u>
Total liabilities, surplus & other funds	\$	<u>543,253</u>

UNITED DENTAL CARE OF UTAH, INC.

SUMMARY OF OPERATIONS

For the Year Ended December 31, 2008

	<u>Current Year</u>
Member months	56,810
Net premium income	<u>\$ 529,221</u>
Total revenues	529,221
Hospital and Medical:	
Other professional services	<u>339,943</u>
Total hospital and medical	339,943
Claims adjustment expenses including \$138 cost containment expenses	3,020
General administrative expenses	<u>181,118</u>
Total underwriting deductions	<u>524,081</u>
Net underwriting gain	5,140
Net investment income earned	<u>9,388</u>
Net income before federal income taxes	<u>14,528</u>
Federal income taxes incurred	<u>5,043</u>
Net income	<u><u>\$ 9,485</u></u>

UNITED DENTAL CARE OF UTAH, INC.

RECONCILIATION OF CAPITAL AND SURPLUS

2004 through 2008

	2004*	2005*	2006*	2007*	Per Exam 2008
Capital and surplus prior reporting year	\$ 414,819	\$ 427,995	\$ 451,117	\$ 468,482	\$ 485,632
Net income or (loss)	13,513	\$ 24,837	\$ 18,608	\$ 17,475	\$ 9,485
Change in net deferred income tax	(151)	(411)	(559)	536	261
Change in nonadmitted assets	(188)	(1,304)	(684)	(861)	(1,412)
Net change in capital and surplus	13,174	23,122	17,365	17,150	8,334
Capital and surplus end of reporting year	<u>\$ 427,995</u>	<u>\$ 451,117</u>	<u>\$ 468,482</u>	<u>\$ 485,632</u>	<u>\$ 493,966</u>

* Per the regulatory financial statements filed with the Utah Insurance Department.

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus

\$493,966

The Organization's capital and surplus was unchanged from the amount reported in the Organization's annual statement as of December 31, 2008.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phases of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, participated in the examination. Jan Moenck, CFE, CIE, CRP, Director, and Michael Morrissey, CISA, RSM McGladrey, Inc., participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Leman McLean, CFE, Examiner-in-Charge

RSM McGladrey, Inc.

Representing the Utah Insurance Department